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US-Japan Trade August 1989

Background: The US and Japan are the world's largest economies, together accounting for about one-third of the world's gross national product (GNP). In 1988, two-way merchandise trade totaled more than $126 billion. The US merchandise trade deficit with Japan in 1988 was about $55 billion, down from its 1987 peak of $60 billion. US exports to Japan came to nearly $38 billion, up 34% from 1987. Japan's global current account surplus declined somewhat from $87 billion in 1987 to $80 billion in 1988. Much of that surplus will be invested in the US. Export volume rose 5% in 1988, while import volume rose 17%.

Experts identify many causes of the high bilateral deficit. Most of them stress macroeconomic factors such as rates of savings and investment relative to GNP in the two countries. Some point to restricted access to the Japanese market as significant; others emphasize the importance of structural and cultural factors.

US policy: Our trade policy with Japan has several elements, including:

- Encouraging changes in Japanese structural factors that will reduce the reliance of Japan's economy on exports and increase its propensity to import;

- Coordination of macroeconomic policies in order to align economic trends to foster improved balances;

- Actions under US trade laws, where appropriate, to advance solutions to problems in specific sectors; and

- Negotiations and other market access initiatives that focus on removing barriers to trade in Japan's markets. Among these is the Structural Impediments Initiative announced in July 1989. This is intended to identify and remove structural impediments to balance-of-payments adjustment in both countries' economies. A final report is scheduled for July 1990.

These elements are consistent with our global trade policy, and we are pursuing similar initiatives with other trading partners.

Structural factors: Several official and semiofficial Japanese studies, most notably the "Maekawa report," have focused on the need for Japan to make structural changes in its economy to reflect their economic development. The studies indicate that growth should no longer depend on exports; it should be driven by domestic demand. Output should include rising percentages of high technology, high "intellectual" content goods, and lesser percentages of basic industrial goods. The import of labor-intensive and some resource-intensive manufactured goods should increase. All these have been identified as structural adjustments Japan needs, and all are underway.

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Market access: Access to the Japanese market for US products has been considerably improved over the last several years. For example, 1988 saw important agreements covering beef and citrus, other agricultural products, and public works. US sales of several other products (tobacco, soda ash, fish, forest products, semiconductors) increased markedly following agreements in earlier years. Efforts to improve market access take place in semiannual Trade Committee meetings, followup meetings for the "Market-Oriented, Sector Selective" (MOSS) process, and meetings on specialized topics--for example, semiconductors, telecommunications, fish, medical-pharmaceutical products, auto parts, and intellectual property rights.

The passage of the Omnibus Trade and Competitiveness Act of 1988 affected trade relations with Japan in many ways. (Already outstanding are sanctions on Japan for not fully complying with the 1985 semiconductor arrangement.) The act required initiation of a Section 301 investigation of the construction industry that is due for completion by November 21, 1989. It also mandated a review of compliance with telecommunications agreements, and Japan was found to have violated commitments made in the MOSS telecommunications process. On May 25, 1989, US Trade Representative Carla Hills, acting under the "Super 301" provisions of the act, named as priority practices to be investigated Japanese Government procurement policies for supercomputers and satellites and technical barriers to trade in the forest products sector.

Harriet Culley, Editor (202) 647-1208